

# Senate Budget & Fiscal Review

## *Senator Wesley Chesbro, Chair*



Subcommittee No. 3  
on  
Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair  
Senator Gilbert Cedillo  
Senator Tom McClintock  
Senator Bruce McPherson  
Senator Deborah Ortiz

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Consultant, Ana Matosantos

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## 5180 Department of Social Services

The Department of Social Services (DSS) administers various programs designed to assist low-income families with children in attaining self-sufficiency by transitioning from welfare to work, to support low-income aged, blind or disabled Californians, and to provide food assistance to low income families. The programs include the California Work Opportunity and Responsibility to Kids (CalWORKs) program, the Cash Assistance Program for Immigrants, Food Stamps and the California Food Assistance Program. These programs serve approximately 2.2 million persons each year. The Governor's Budget provides \$5.9 billion in combined federal, state and county funds to support these programs.

<b>Summary of Expenditures</b> (dollars in thousands)	2003-04	2004-05	\$ Change	% Change
<i>Program Funding</i>				
CalWORKs	5,062,397	4,702,394	(360,003)	-7.1
Food Stamps Administration	779,577	727,340	(52,237)	-6.7
California Food Assistance Program	16,393	9,947	(6,446)	-39.3
Cash Assistance Program for Immigrants	82,280	80,817	(1,463)	-1.8
<b>Total Program Expenditures</b>	<b>\$5,940,647</b>	<b>\$5,520,498</b>	<b>-\$420,149</b>	<b>-7.1</b>

## ITEMS FOR DISCUSSION

### I. California Work Opportunity and Responsibility to Kids (CalWORKs)

**Background:** The California Work Opportunity and Work Responsibility to Kids (CalWORKs) program implements in California the Temporary Aid to Needy Families (TANF) program. TANF, the federal welfare reform law of 1996, ended the federal welfare entitlement, introduced work participation requirements, provided services designed to support employment, and gave states block grant funding and program flexibility. CalWORKs, California's TANF program, became operational January 1, 1998.

CalWORKs provides cash benefits and welfare-to-work services to 1.2 million children and their parents or caretaker relatives. The average family of three must have an annual net income below \$11,772 or 77 percent of the federal poverty level, have less than \$2,000 in resources, and cannot have a car valued at more than \$4,650 to become eligible for CalWORKs. A family of 3 receiving CalWORKs can earn up to \$19,596 per year and remain eligible for aid due to California's earned income disregards. CalWORKs recipients are required to participate in welfare-to-work activities and perform a minimum of 32 hours of work activities per week (35 hrs. for two parent families) to remain eligible for benefits.

CalWORKs is overseen by the California Department of Social Services and administered locally by counties. State law establishes eligibility criteria and benefits, and grants counties considerable flexibility to design welfare-to-work services that reflect local conditions and priorities. Counties are provided block grant funding to support program services.

**Summary of Enrollment:** After peaking in March of 1995, CalWORKs enrollment has dropped by 48.7 percent through 2003. Enrollment decreased by 34.3 percent since the CalWORKs program was implemented in 1998. The caseload decline is due to a combination of demographic trends (such as decreasing birth rates for young women), California's economic expansion, and full implementation of welfare reform. After years of declines, the Department of Social Services estimates enrollment will decrease by 0.7 percent in 2003-2004, and increase by 0.4 percent in 2004-2005. The budget assumes that the final CalWORKs average monthly enrollment will be 469,077.

#### **Issue A - CalWORKs Funding Structure and Maintenance-of-Effort Requirement**

**Background:** CalWORKs is funded through a federal TANF block grant, which combined with required state matching funds amounts to \$6.4 billion. As a condition of receiving TANF funds, state funding must be at least 75 percent of the state's federal fiscal year (FFY) 1994 expenditures level (\$2.7 billion). As a matter of policy, California has chosen to treat the federally required maintenance of effort (MOE) level as a ceiling for program spending.

Over time, California has broadened its definition of expenditures that can be considered to meet the state's maintenance of effort requirement. Additionally, the state has transferred a growing amount of TANF funds to non-CalWORKs programs. As a result, available direct funding for the CalWORKs program has substantially declined. Since 1998, total funding for the CalWORKs program has decreased by \$757.5 million.

Slowing caseload declines, scheduled cost of living adjustments and a growing demand for welfare-to-work services are estimated to increase CalWORKs costs in the budget year. Absent statutory or funding changes, costs are estimated to rise \$402.6 million above the maintenance of effort level. A recent court ruling in *Guillen v. Schwarzenegger*, a legal challenge which seeks to compel the state to provide a cost-of-living adjustment, may increase CalWORKs spending to \$618.9 million above the TANF maintenance of effort level (an increase of \$216.3 million above the aforementioned \$402.6 million estimate).

**Governor's Budget:** The Governor's Budget maintains state spending at the federally required TANF maintenance of effort level and transfers additional TANF funds to offset General Fund costs in non-CalWORKs programs. The budget provides \$4.7 billion to support CalWORKs in the budget year. This constitutes a \$359.97 million, or a 7.1 percent decrease in CalWORKs expenditures from the current year appropriation.

Under the Governor's Budget, the total CalWORKs program funding reduction from the 1998-99 level will be \$757.5 million, equal to a 14 percent reduction. TANF/MOE funding for non-CalWORKs programs has increased by 50 percent to \$1.1 billion since 1998-99.

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## CalWORKs Program Funding

	FY 1998-99	FY 2003-04	FY 2004-05	98-99 to 04-05	
<b>Total TANF Grant/Required MOE</b>	<b>6,640,971,000</b>	<b>6,413,211,000</b>	<b>6,401,369,000</b>	<b>-239,602,000</b>	<b>-3.61%</b>
<b>CalWORKs Program (Actuals)</b>	<b>5,459,880,441</b>	<b>5,062,397,000</b>	<b>4,702,394,000</b>	<b>-757,486,441</b>	<b>-13.87%</b>
Grants	3,728,895,597	3,072,954,000	2,820,982,000	-907,913,597	-24.35%
Administration	518,317,463	615,931,553	582,485,155	64,167,692	12.38%
Services	418,503,052	776,479,603	734,315,104	315,812,052	75.46%
Child Care	360,733,329	597,031,844	564,611,741	203,878,412	56.52%
Estimated County Share of Admin/Services	60,400,000				
Performance Incentives(budgeted)	373,031,000	0	0	-373,031,000	-100.00%
<b>Probation</b>	<b>201,413,000</b>	<b>201,413,000</b>	<b>67,138,000</b>	<b>-134,275,000</b>	<b>-66.67%</b>
<b>KinGAP</b>	<b>0</b>	<b>85,310,000</b>	<b>92,319,000</b>	<b>92,319,000</b>	
<b>Non-CalWORKs MOE in CDSS</b>	<b>(11,269,000)</b>	<b>(12,363,000)</b>	<b>(10,322,000)</b>	<b>947,000</b>	<b>-8.40%</b>
<b>Other MOE in CDSS</b>	<b>305,663,000</b>	<b>329,544,000</b>	<b>340,155,000</b>	<b>34,492,000</b>	<b>11.28%</b>
<b>MOE In Other Department Budgets</b>	<b>402,839,000</b>	<b>460,336,000</b>	<b>444,759,000</b>	<b>41,920,000</b>	<b>10.41%</b>
<b>State Support</b>	<b>29,016,000</b>	<b>27,242,000</b>	<b>27,242,000</b>	<b>-1,774,000</b>	<b>-6.11%</b>
<b>Total Expenditures</b>	<b>6,387,542,441</b>	<b>6,153,879,000</b>	<b>5,663,685,000</b>	<b>-723,857,441</b>	<b>-11.33%</b>
Federal TANF	3,480,389,441	3,474,486,000	2,996,134,000	-484,255,441	-13.91%
General Fund	2,753,530,610	2,478,518,000	2,462,788,000	-290,742,610	-10.56%
Other State Funds (ETF, Prop 10)	0	56,400,000	56,400,000	56,400,000	
County Funds	153,622,390	144,475,000	148,363,000	-5,259,390	-3.42%
<b>Total TANF transfers</b>	<b>284,965,000</b>	<b>747,993,000</b>	<b>832,627,000</b>	<b>547,662,000</b>	<b>192.19%</b>
Non-CalWORKs Transfers	0	100,135,000	194,535,000	194,535,000	
Transfers to Stage 2, Tribal TANF and Reserve	284,965,000	647,858,000	479,657,000	194,692,000	68.32%
<b>Total Available Funding</b>	<b>7,257,991,000</b>	<b>6,996,815,000</b>	<b>6,496,312,000</b>	<b>-761,679,000</b>	<b>-10.49%</b>
<b>Total TANF/MOE Expends</b>	<b>6,672,507,441</b>	<b>6,901,872,000</b>	<b>6,496,312,000</b>	<b>-176,195,441</b>	<b>-2.64%</b>
NET TANF Carry-over Funds	585,483,559	94,943,000	0	-585,483,559	-100.00%
CalWORKs contribution to the General Fund	708,502,000	1,155,325,000	1,251,768,000	543,266,000	85.09%

**Subcommittee request and questions:** The Subcommittee has requested the Department of Social Services answer the following questions:

1. Briefly describe the federal TANF maintenance of effort requirement and the CalWORKs program funding structure.
2. How has total CalWORKs program funding and funding for different program components changed over time?
3. How has California's broader definition of expenditures counted towards the TANF/MOE, its transfer of TANF funds to non-CalWORKs programs, and the slowing caseload decline affected CalWORKs program funding?

### **Issue B - CalWORKs Grants**

**Background:** CalWORKs provides monthly cash assistance to eligible children and their parents or caretaker relatives. A family's grant depends on its size, available income and resources. Grants also depend on the cost of living of the area in which the family resides. The current maximum grant for a family of 3 on CalWORKs is \$704 per month. The annual income of a family of 3 receiving food stamps and the maximum CalWORKs payment is \$11,772 or 77 percent of the federal poverty level. A family of 3 receiving CalWORKs can earn up to \$19,596 per year and remain eligible for aid.

The CalWORKs grant structure is designed to encourage work participation by allowing recipients to keep much of their earnings while remaining eligible for aid and services. The budget maintains the existing grant structure and earned income disregards.

**Governor's Budget:** The budget proposes to (1) reduce CalWORKs grants by 5 percent, (2) delink CalWORKs COLAs from the Vehicle License Fee, (3) suspend CalWORKs COLAs, and (4) reduce Safety Net grants for cases with non-working adults by 25 percent for total General Fund savings of \$352.9 million and \$216.3 million in cost avoidance.

The following chart illustrates the impact of the Governor's Budget on CalWORKs eligibility:

<b>CalWORKs Eligibility Income Levels</b>		
	<b>Current Levels</b>	<b>Governor's Budget</b>
<b>Applicant</b>	\$981 per month	\$936 per month
<b>Recipient</b>	\$1,633 per month	\$1,563 per month

The following chart illustrates the impact of Governor's Budget on a CalWORKs family of 3 that has no other income and receives the maximum aid payment:

<b>CalWORKs Grant (Families with no other income)</b>	
Current Grant for a Family of 3	\$704
October COLA	24
July COLA	21
<b>Grant Under Current Law</b>	<b>\$749</b>
Total Grant after 5% Grant Reduction	\$669
Offsetting Increase in Food Stamps	\$37
Lost Income to Families	\$43
Work Hours per Month to Replace Income Loss	6.4

\* The calculation of "work hours per month to replace income loss" assumes that the CalWORKs participant works at minimum wage.

**(1) CalWORKs grant reduction**

**Background:** The current maximum grant for a family of 3 on CalWORKs is \$704 per month. The annual income of a family of 3 receiving food stamps and the maximum CalWORKs payment is \$11,772 or 77 percent of the federal poverty level. A family of 3 receiving CalWORKs can earn up to \$19,596 per year and remain eligible for aid.

**Governor's Budget:** The budget reduces the maximum aid payment under CalWORKs by 5 percent to \$669 for a family of 3 for General Fund savings of \$226.4 million.

The budget reduces CalWORKs grants for a family of 3 by \$35 per month. The reduction will be partially offset by a \$16 increase in monthly food stamps benefits. Families can make up the lost income by working an additional 2.8 hours per month. An average family of 3 with no earned income will experience a decrease in their income from 77 to 75 percent of the federal poverty level or from \$981 to \$962 per month.

The average family on CalWORKs will lose a smaller percentage of their income as their grant serves as a wage supplement. These families will lose 2.9 percent of their income compared to the 5 percent for families with no earned income. The average family of 3 receiving CalWORKs will experience a decrease in their income from 96 to 93 percent of the federal poverty level.

CalWORKs recipients expend their grants to pay for rent, clothing and other necessities. They expend most of their grant on rent and utilities. According to the U.S Department of Housing and Urban Development, Fair Market Rents for a one-bedroom apartment in California average \$633 per month and range from \$417 in Colusa to \$1,475 in San Jose, \$807 in Los Angeles, \$596 in Riverside, \$987 in Orange and \$1,004 in Santa Cruz. Since 1990 rent prices have increased by 41 percent and the purchasing power of a CalWORKs grant has declined by 32.3 percent.

In addition to reducing the resources of families on CalWORKs, the proposed grant reduction will make 6,100 families ineligible for the program. These families will lose their grants, but will remain eligible for 24 months of transitional child care services. The families that become ineligible for CalWORKs as a result of the proposed grant reductions generally have other sources of income, including income from earnings and income from other forms of assistance.

**Subcommittee requests and questions:** The Subcommittee has asked the Department of Social Services to answer the following questions:

1. Briefly describe the proposed CalWORKs grant reduction.
  2. How will the proposals affect low-income families participating in CalWORKs?
  3. How many families will become ineligible for CalWORKs as a result of the proposed grant reduction? What are the characteristics of these families? How will these families be affected by the loss of CalWORKs eligibility?
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**(2) De-link CalWORKs COLA from Vehicle License Fee.**

**Background:** Current law links the provision of a CalWORKs cost of living adjustment to vehicle license fee (VLF) relief. Specifically, the law provides that between the 2001-02 and the 2003-04 fiscal years, when there is an increase in vehicle license fee relief the CalWORKs COLA shall be provided and when there is no vehicle license fee relief the CalWORKs COLA shall be suspended. In June 2003, the Director of Finance determined that there would be a rate increase for VLF payments due on or after October 1, 2003. Because the VLF relief was eliminated, the CalWORKs October 2003 COLA was suspended. In November 2003, the Schwarzenegger administration rolled back the VLF increase triggering fee relief and an assumed requirement to provide the October CalWORKs COLA. The Administration did not provide the CalWORKs COLA and proposed legislation to "de-link" the CalWORKs COLA from the VLF.

In December 2003, three parents receiving CalWORKs filed a class action lawsuit, *Guillen v. Schwarzenegger*, seeking to compel the state to provide the October 2003 cost-of-living adjustment. The Schwarzenegger administration argued that the CalWORKs COLA is not required by current law, that the previous administration's action to increase the VLF was not legal, and that in accordance with the statute, no COLA is required since there was no increase in tax relief. A Superior Court judge recently ruled that California must provide a cost-of-living increase to welfare recipients as a result of the Governor's reduction of the VLF. The judge ruled that the State must pay the COLA to all welfare recipients, retroactive to October 1, 2003 and for future months.

**Governor's Budget:** The Governor proposes legislation to de-link the CalWORKs annual COLA from the Vehicle License Fee for cost avoidance of \$90.5 million in 2003-04 and \$125.8 million in 2004-05.

**Subcommittee request and questions:** The Subcommittee has requested that the Administration provide an update on the status of *Guillen v. Schwarzenegger*.

**(3) CalWORKs Cost-of-Living Adjustment Suspension**

**Background:** Current law provides an annual cost-of-living adjustment for CalWORKs grants that is based on the California Necessities Index. Historically, the CalWORKs COLA becomes effective on July 1 of every year. Legislation that had delayed the effective date of the COLA to October 1 expires in the current year making July 1 the effective date for future COLAs. The July 1, 2004 CalWORKs cost-of-living adjustment will increase the maximum CalWORKs grant by \$21 per month. Under current law, the maximum CalWORKs grant for a family of 3 will increase to \$749 per month in the budget year.

**Governor's Budget:** The budget proposes to suspend the annual CalWORKs COLA in the 2004-2005 fiscal year to generate savings of \$98.5 million General Fund. Suspension of the cost-of-living adjustment will maintain grants at their current level and will not keep pace with cost-of-living increases such as rising housing costs.

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The Governor also proposes legislation to permanently change the effective date for the CalWORKs COLA to October 1. Providing the CalWORKs COLA in October, instead of July facilitates implementation of statutory changes to the CalWORKs grant associated with the Budget Act, including suspension of the annual COLA, when approval of a budget is delayed beyond the July 1 deadline.

**Subcommittee request and questions:** The Subcommittee has requested that the administration describe the budget proposal, the impact of the COLA suspension on CalWORKs families, and the rationale for changing the effective date for the CalWORKs COLA to October 1.

#### **(4) Safety Net Grant Reduction**

**Background:** TANF and CalWORKs establish a 60-month lifetime limit for receiving CalWORKs assistance for adults, unless they meet specified exemption criteria, such as being a victim of domestic violence, being disabled or being over 60 years of age. Upon reaching their time limit, parents are discontinued from aid. Most families continue to receive a safety net grant, which excludes the adult from the grant unit.

**Governor's Budget:** The budget reduces Safety Net grants received by families with non-working adults by 25 percent for General Fund savings of \$28.7 million in 2004-05.

The Safety Net grants effected by this proposal are child-only grants that provide cash assistance to children whose parents have exceeded their 60-month lifetime limit for receipt of cash aid. Under the proposal, the maximum monthly safety net grant for a family of three with non-working adults will be reduced by \$163 to \$405. The reduction will be offset by a \$67 increase in food stamps. A family can avoid the loss of income if the adult works for any amount of earnings, as families that report earnings during the quarter will be considered to be working.

The Governor's Budget assumes that 49.3 percent of safety net cases are not working. The budget does not assume adults in these families will begin to work as a result of the proposed reduction. If the adults begin to work and report any earnings, they will avoid a grant reduction. Changes in the work participation of these adults will reduce budgetary savings.

**Subcommittee request and questions:** The Subcommittee has requested that the Department of Social Services describe the characteristics of families receiving safety net grants, the impact on children of the proposed reduction, and why the budget does not assume any behavioral changes on parents as a result of the proposed reduction.

#### **Issue C - Tribal TANF Programs.**

**Background:** Federal welfare reform legislation authorizes Indian tribes, or tribe consortia, to operate TANF programs. Tribes with an approved Tribal Family Assistance Plan are granted the administrative authority to operate a TANF program and receive program funding to meet benefit, administrative, and welfare-to-work service costs. Tribal TANF programs, like county programs, are accountable for delivering services and achieving program outcomes, including moving families from welfare to self-sufficiency.

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California currently has six approved Tribal TANF programs. The programs serve Native American families across 21 counties. Additional tribes are reportedly interested in establishing Tribal TANF programs. The Department of Social Services is currently in negotiations with 5 tribal programs.

Tribal TANF programs are funded with combined federal and state dollars. Tribes receive federal funding for Tribal TANF programs directly from the federal government. Federal funding for Tribal TANF reduces the state's TANF block grant by the amount transferred to the Tribal Assistance Grants. Federal funding is based on the number of Native American families that received cash assistance in the 1994 Federal Fiscal Year.

State law provides for General Fund support for tribal TANF programs. The amount of General Fund support is also based on the FFY 1994 caseload. According to DSS, a portion of state funding for tribal TANF programs comes from funds shifted to the tribes from the single allocation of the counties in which the tribes are located. Native American families have the option of receiving CalWORKs services, including grants, from the county where they reside or from the tribe.

**Governor's Budget:** The budget reduces state funding for Tribal TANF programs by \$30.5 million. Federal funding for Tribal TANF programs remains at the prior-year level and is based on the federal fiscal year 1994 caseload levels.

The Governor's Budget provides state funding for tribal TANF programs at the FFY 1994 caseload level for the first two years of operation. After two years, state funding for the programs will be based on actual program caseload.

**Constituency Comments:** The California/Nevada Tribal TANF Administrators' Association opposes the Governor's Budget proposal and argues that it would have a disproportionate impact on programs serving the neediest Californians. They argue that tribal TANF programs face unique challenges, including a history of deep poverty in Native American communities and large service areas, which require a reasonable period of time for programs to develop. Tribal TANF Administrators argue that the Budget does not account for the need to build infrastructure, develop program components, and "ramp up" Tribal TANF programs. The administrators also argue that the Budget does not accurately reflect program caseload, as they believe the caseload estimate only includes "assistance" cases, not cases receiving preventive services.

Counties support the Governor's proposal to base state funding for tribal TANF programs on actual caseload. They argue that as the state has chosen to reduce county allocations to fund tribal TANF programs, it is critical to have a process to allocate funding to where clients are being served. Counties argue that the current approach is problematic as state funding is based on imprecise caseload estimates and some tribal members may continue to seek CalWORKs services from the county. Counties support the Governor's Budget and request that the savings be returned to the counties whose allocation was originally reduced.

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**Subcommittee request and questions:** The Subcommittee has requested that the Department of Social Services describe their budget proposal and its impact on the ability of Native American families to receive program services and assistance.

**Issue D - Terminates Funding for Services Delivered by Indian Health Clinics**

**Background:** Since 2000, California has provided funding to 36 Indian health clinics to support the delivery of mental health and substance abuse services to Native Americans. Funding supports a clinician at each of the clinics and the delivery of services designed to assist clients in securing and retaining employment. Program services include outreach, mental health or substance abuse screenings, individual or group treatment services, and assistance to integrate clients into welfare-to-work services.

**Governor's Budget:** The budget terminates funding for mental health and substance abuse services delivered by Indian Health Clinics for savings of \$2.7 million.

**Subcommittee request and questions:** The Subcommittee has requested that the Department of Social Services describe the budget proposal and its impact on the ability of Native Americans on CalWORKs to access substance abuse and mental health services.

**Issue E - Eliminates Substance Abuse Treatment Program for Low-Income Women**

**Background:** The Low-Income Women Outpatient Substance Abuse Treatment and Supportive Housing Program provides transitional services to low-income women in need of substance abuse treatment who are not eligible for other treatment services.

**Governor's Budget:** The budget eliminates the Low-Income Women Outpatient Substance Abuse Treatment and Supportive Housing Program for savings of \$2 million.

**Subcommittee request and questions:** The Subcommittee has requested that the Department of Social Services describe the budget proposal and its impact on the ability of low-income women to access substance abuse treatment.

**Issue F - TANF transfer to non-CalWORKs Programs**

**Background:** The federal TANF law allows the state to transfer up to 10 percent of its TANF funds to Title XX. The transferred TANF funds must be spent on children or their families with incomes below 200 percent of the federal poverty level. Once transferred, the funds may be used to support any programs that meet the stated Title XX goals, including, achieving economic self-sufficiency, preventing abuse or neglect, enabling families to stay together, and preventing inappropriate institutional care.

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**Governor's Budget:** The budget increases TANF fund transfers to support non-CalWORKs activities to \$194.5 million. The budget proposes the following new or increased TANF transfers: \$56 million to the Foster care program, \$52.5 million to Child Welfare Services, \$48 million to the Department of Developmental Disabilities and \$18 million to fund activities associated with implementation of the state's Children's Services Program Improvement Plan. At its March 18 hearing, the Subcommittee rejected the proposed funding for the Child Welfare Services Redesign and redirected the proposed funding to reduce the TANF fund transfer to Child Welfare Services.

Since 1998-99, TANF/MOE funding for non-CalWORKs programs has increased by 50 percent to \$1.1 billion. CalWORKs program funding has decreased by \$757.5 million in the same period.

**Subcommittee request and questions:** The Subcommittee has requested that the Department of Social Services describe the proposed transfers and their impact on the state's ability to fully fund CalWORKs grants and welfare-to-work services.

### **Issue G - Research and Evaluation**

**Background:** Assembly Bill 1542 (Chapter 270, Statutes of 1997) authorized the Department of Social Services to develop a research design to evaluate CalWORKs and county demonstration projects such as school attendance, monthly change reporting, etc. State law requires that an independent statewide evaluation be conducted. Outcomes derived from the evaluations are provided through individual reports that consider the CalWORKs process, the program's impacts, and the costs and benefits of the CalWORKs Program.

**Governor's Budget:** The budget provides \$6.6 million to fund CalWORKs research and evaluation projects.

**Subcommittee request and questions:** The Subcommittee has requested that the Department of Social Services describe the research and evaluation activities being funded by CalWORKs and discuss how the information is distributed and utilized.

### **Issue H - CalWORKs Employment Services and Administration Funding**

**Background:** County welfare departments are responsible for the local development and implementation of CalWORKs. They receive a block grant from the state and are given substantial flexibility to design and carry out the CalWORKs program within the state and federal program guidelines. Counties develop and implement employment preparation and family support programs. County staff members determine eligibility for the program, provide case management services, develop welfare-to-work plans, and provide referrals to services such as child care and transportation.

California provides counties a single allocation block grant to fund CalWORKs Stage 1 childcare, employment services, transportation and program administration. Program administration funding supports eligibility determination, case management services, fraud

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prevention, and issuance of grants. Counties have some flexibility to move funds from one type of expenditure to another within their single allocation.

County single allocations were established during the implementation of CalWORKs and were based on each county's estimate of the funding level necessary to fund their CalWORKs program. The allocations were reviewed and adjusted to reflect actual costs in 1998-99 and 1999-00. California has maintained counties at the 2000-01 funding level in subsequent years.

The Budget Acts of 2002 and 2003 provided single allocation increases to equalize program funding across counties and to support the provision of employment services. This funding augmented available county resources for employment services functions. However, the increase was partially offset by CalWORKs administrative funding reductions.

**Governor's Budget:** The budget (1) suspends county cost of doing business adjustments; (2) reduces single allocation funding due to the impact of time limits on caseload; (3) reduces single allocation funding due to the implementation of prospective budgeting; and (4) maintains the \$191.9 million funding increase for employment services.

**(1) County Cost of Doing Business Adjustment**

**Background:** The budget provides \$1.9 billion to fund the delivery of CalWORKs services, childcare and CalWORKs administration. This amount reflects a \$108 million decrease in local assistance in the budget year. The proposed compensation for county services is based on 1999-2000 county costs and does not include a cost-of-doing business adjustment. Counties estimate that the maintenance of CalWORKs program funding at the 1999-2000 level amounts to a total reduction of \$255 million.

State and federal laws require counties to complete specified administrative functions, including determining eligibility and issuing benefit checks, within specified timelines. Counties are given greater flexibility in the provision of employment services. When managing reductions in state funding, including suspension of cost of doing business adjustments, counties must fund mandated activities, such as the provision of eligibility services first. Counties reduce funding in the areas where they have more flexibility including funding for overhead expenses, staffing and available welfare-to-work services.

Subcommittee staff review of county expenditures found that since 2001-02, counties have shifted more than \$100 million in program funding from welfare-to-work services to child care and administration. Counties report that CalWORKs funding reductions have led to elimination of employment services, reduced availability of on the job training programs, cancellation of contracts designed to move recipients from cash aid to work, and elimination of outreach programs to engage clients with multiple barriers in welfare-to-work activities.

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**Subcommittee request and questions:** The Subcommittee has requested that the Department of Social Services briefly answer the following questions:

1. Briefly discuss the proposed funding level for CalWORKs administration and services.
2. What has been the programmatic impact of maintaining funding for CalWORKs program administration and services at the 1999-2000 cost level?
3. How does limited funding for welfare-to-work services affect work participation and CalWORKs grant costs?

**(2) 60-month time limits**

**Background:** TANF and CalWORKs establish a 60-month lifetime limit for receiving CalWORKs assistance for adults, unless they meet specified exemption criteria. Upon reaching their time limit, parents are discontinued from aid. They remain eligible for two years of child care services and, at county option, job retention services. Parents began reaching their TANF time limit in December of 2001 and their CalWORKs time limit in January of 2003.

**Governor's Budget:** The budget estimates that in the current year and budget year the average monthly number of cases that will reach their CalWORKs time limit is 31,698 and 53,006. The budget reduces funding for CalWORKs services and administration by \$72.98 million in the current year and \$100.2 million in the budget year as a result of parents reaching their time limit.

**(3) Prospective Budgeting** (This issue affects both CalWORKs and Food Stamps)

**Background:** California was one of eight states that required CalWORKs and food stamps recipients to report, on a monthly basis, changes in their income and eligibility. Monthly reports of income and employment require that counties process more than 700,000 pieces of paper each month, even if most of them include no reported changes. An error is recorded not only if the information is wrong or fraudulent, but also if the monthly report is not processed on a timely basis. California's monthly reporting requirement reportedly contributed to California's high food stamps error rate, which has resulted in significant federal penalties.

Assembly Bill 444 (Chapter 1022 of the Statutes of 2002) required California to implement prospective budgeting/quarterly reporting for CalWORKs, Food Stamps and the California Food Assistance Program. Prospective budgeting will require beneficiaries to report their earnings and other eligibility related information on a quarterly basis instead of every month. The implementation of prospective budgeting is expected to reduce California's error rate and result in significant administrative savings.

Counties began to implement the new prospective budgeting system in November 2003. The system will be implemented statewide by June 2004.

**Governor's Budget:** The budget reduces funding for CalWORKs and Food Stamps administration by \$143.8 million due to the implementation of prospective budgeting. According to DSS, the reduction constitutes a 16 percent decrease in funding for administrative costs.

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**Constituency Comments:** Counties believe that the budget overestimates the administrative savings of implementing prospective budgeting. Based on the experience of counties that have implemented prospective budgeting, counties argue that savings from quarterly reporting do not begin to accrue until after six months of implementation. Further, counties assert that the budget assumes a higher level of savings than can be reasonably expected to materialize. Counties recommend that savings be delayed until six months after implementation and that the savings level be reduced to reflect monthly workload that is not linked to monthly or quarterly reports.

Inadequate CalWORKs and Food Stamps administration funding may undermine the delivery of eligibility services, delaying aid to families. Additionally, reductions to funding for CalWORKs administration costs may further reduce the availability of welfare-to-work services. Reductions to funding for Food Stamps administration may erode the state's progress in reducing its error rate leading to substantial federal penalties.

**Subcommittee Concerns and Questions:** The Subcommittee has requested that the Department of Social Services to answer the following questions:

1. Briefly discuss the status of implementation of the new prospective budgeting system.
2. Discuss the impact of prospective budgeting on county eligibility worker workload.
3. Are counties that have implemented prospective budgeting experiencing the level of workload reduction assumed in the budget?
4. How will reductions in CalWORKs and Food Stamps administration funding impact the state's error rate and availability of welfare-to-work services?

### **Issue I - Work Participation Reforms**

**Background:** CalWORKs provides cash benefits and welfare-to-work services to 1.2 million eligible children and their parents or caretaker relatives. CalWORKs recipients are required to participate in welfare-to-work activities and perform a minimum of 32 hours of work activities per week (35 hrs. for two parent families) to remain eligible for benefits. Recipients can satisfy work participation requirements within the first 18 to 24 months by being employed, participating in activities that will lead to employment, including education and training programs, or participating in activities that reduce barriers to employment such as receiving substance abuse or mental health treatment. After the 18-24 month period, recipients must participate in employment or supervised community services to continue receiving aid.

CalWORKs grants counties broad flexibility in the design and implementation of the program. County welfare departments are responsible for the local development and implementation of a CalWORKs plan. Counties develop employment preparation and family support programs that reflect local conditions, including labor market information and availability of services for low-income families. County staff provide case management services, develop welfare-to-work plans, provide referrals to services such as child care and transportation, and monitor participant compliance with program requirements. Counties are responsible for moving CalWORKs recipients into program participation and share in 50 percent of any financial penalties the federal government assesses for not meeting federal TANF work participation requirements.

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California has successfully met federal work participation requirements each year since CalWORKs was implemented. As a result, the state's maintenance of effort requirement has been reduced by \$180 million to \$2.7 billion since the 2000-01 fiscal year and the state has avoided federal penalties. California's success in meeting federal participation requirements is in part due to the state's caseload reductions as the state has benefited from the federal caseload reduction credit. The state's actual work participation rate in the federal fiscal year 2002 was 27 percent, arguably lower than one would expect given the state's work first program design.

According to the Department of Social Services, a significant number of CalWORKs recipients are not participating in the required work activities or are participating for less hours than the required 32 or 25 hours of work participation. Limited participation in work activities negatively impacts the state's work participation rate and may hinder the ability of participants to achieve self-sufficiency within the 60-month lifetime limit for CalWORKs assistance.

**Governor's Budget:** The Governor proposes to require job search as a condition of eligibility and to require most adults receiving CalWORKs to work or participate in work related activities for at least 20 hours per week, within 60 days of receipt of aid. The reforms seek to strengthen the program's focus on work and to increase California's work participation rate, which currently is 27 percent. The Governor's proposed reforms generate net savings of \$31.2 million.

The Governor's proposed changes are consistent with some Congressional TANF Reauthorization proposals, which limit the activities that can be counted towards fulfillment of work requirements. However, enactment of the Governor's proposed reforms will most likely not obviate the need to make changes to the CalWORKs program when Congress approves Reauthorization.

The following chart summarizes key components of the Governor's reform proposals and how they compare to the CalWORKs program and to proposed TANF changes:

	<b>CalWORKs Program</b>	<b>Governor's Proposal</b>	<b>Proposed TANF Changes</b>
Universal Engagement	<ul style="list-style-type: none"> <li>Requires non-exempt aided adults to participate in job search or job club activities.</li> <li>Provides for an assessment and development of a Welfare-to-Work Plan if the adult does not find employment during the job search period or if the county determines that participation in job search will not lead to employment.</li> </ul>	<ul style="list-style-type: none"> <li>Requires all aided adults to sign a Welfare-to-Work Plan within 60 days of receipt of aid, or up to 60 days after completion of job search if job search is "initiated" within 30 days of determination of eligibility.</li> <li>Requires job search as a condition of eligibility. Applicants will follow the same "program flow" as recipients and will be eligible for supportive services.</li> </ul>	<ul style="list-style-type: none"> <li>Requires that every family with a "work eligible individual" have a family self sufficiency plan within 60 days of opening a case. <i>Senate version</i> provides a year to phase-in the requirement for current recipients.</li> <li>Requires all parents and caretakers receiving assistance to engage in work or alternative self-sufficiency activities.</li> </ul>

	CalWORKs Program	Governor's Proposal	Proposed TANF Changes
Work Activities	<ul style="list-style-type: none"> <li>Recipients can satisfy work participation requirements within the first 18 to 24 months by being employed, participating in activities that will lead to employment, including education and training programs, or participating in activities that reduce barriers to employment such as receiving substance abuse or mental health treatment.</li> <li>After the 18-24 month period, recipients must participate in employment or supervised community services to continue receiving aid.</li> </ul>	<ul style="list-style-type: none"> <li>Eliminates the 18-24 month CalWORKs time limit.</li> <li>Requires all non-exempt adults to work or participate in work-related activities for at least 20 hours per week within 60 days of receiving aid.</li> <li>Limits the activities that count towards fulfillment of the 20-hour requirement to employment, supervised community services, job search for up to 8 weeks, on-the-job training and work experience.</li> <li>Counts hours spent in mental health, substance abuse, and domestic violence services toward the 20-hr requirement when services are necessary for the individual to work, the need for services cannot be fulfilled within the 12 to 15 non-core hours of participation and the person would be otherwise exempt.</li> </ul>	<ul style="list-style-type: none"> <li>Both proposals are more permissive than the Governor's reforms, but are more restrictive than current CalWORKs law.</li> </ul> <p><i>House version</i> requires 24 hours of participation in "primary activities" which include work, on-the-job training, work experience and community service. Permits states to substitute other activities (such as substance abuse treatment) for 3 months in a 24-month period.</p> <p><i>Senate version</i> requires 24 hours of participation in "primary activities" which include all <i>House version</i> activities, vocational educational training, job search (8 weeks) and providing childcare for other recipients. Permits substitution of barrier removal activities for 6 months in 24 months.</p>
Hours of Participation	<ul style="list-style-type: none"> <li>32 hours per week for single parent families</li> <li>35 hours per week for two parent families</li> <li>55 hours per week for two-parent families receiving federally subsidized child care.</li> </ul>	<ul style="list-style-type: none"> <li>Does not change the state's total required hours of work participation.</li> </ul>	<p><i>House version</i> requires 40 hours per week for all family types but provides a partial credit for adults who participate in at least 24 hours of "direct work activities".</p> <p><i>Senate version</i> requires 34 hours for most single parent families, 39 hours for two parent families and provides a partial credit for single parent families (20 hrs) and for two parent families (26).</p>



	CalWORKs Program	Governor's Proposal	Proposed TANF Changes
Work Participation Rate	<ul style="list-style-type: none"> <li>California's work participation rate for families in the federally funded CalWORKs program is 27.1 percent. This calculation of the work participation rate excludes the two-parent family caseload, which has a higher rate of work participation than the single parent family caseload.</li> </ul>	<ul style="list-style-type: none"> <li>According to Department of Social Services estimates, implementation of the welfare reform proposals may increase California's work participation rate to 80 percent if all participants meet the proposed requirements and 49 percent if only half of recipients comply with the requirements.</li> </ul>	<ul style="list-style-type: none"> <li>50 % in 2004, 55% in 2005, 60% in 2006, 65% in 2007, 70% in 2008.</li> <li>Eliminates separate two-parent family rate.</li> <li><i>House version</i> limits caseload reduction credit to more recent caseload declines.</li> <li><i>Senate version</i> replaces caseload reduction credit with employment credit, a credit for higher earnings, and credit for using TANF funds for child care.</li> </ul>

**Additional Information on Governor's Budget Proposals:**

**Job Search as a Condition of Applicant Eligibility.** The Governor's Budget proposes to require job search as a condition of eligibility. According to DSS, applicants will follow the same "program flow" as current recipients. Applicants will participate in a welfare-to-work (WTW) orientation, be appraised and participate in Job Club or job search prior to receiving assistance. Counties will be required to inform applicants of their rights and responsibilities, determine if applicants should be exempt from participation, and provide necessary supportive and barrier removal services. Counties will have to make good cause and exemption determinations, when necessary, for applicants. Applicants who do not comply with the county's job search requirements, without good cause, will have their applications for aid denied.

**Staff comment:** The Governor's proposal may require a substantial investment in welfare-to-work services and may result in expenditure of limited program resources on families found ineligible for the CalWORKs program. As applicants would be required to follow the same program flow as recipients, counties would provide an orientation, an appraisal, assistance with job search and supportive services to parents who eventually are found ineligible for services. Services provided to ineligible applicants would reduce available resources to fund welfare-to-work services for eligible families.

**Welfare-to-Work plans.** The Governor's Budget requires all aided adults to sign a Welfare-to-Work Plan within 60 days of receipt of aid, or up to 60 days after completion of job search if job search is "initiated" within 30 days of determination of eligibility. The welfare-to-work plan will be developed once an individual has completed job search and has not obtained employment for the required number of hours, or was determined by the county to not benefit from job search.

Counties will have between 105 and 135 days to enter into a welfare-to-work plan with a newly aided individual, counting the initial 45 days for determining eligibility. Counties will have up to 135 days to develop a WTW plan when the job search activity is initiated within 30 days after

a recipient's eligibility for aid is determined as the 60-day clock begins after completion of the initial job search activity.

**Exemptions from CalWORKs work requirements.** The Governor's Budget proposes to change the threshold for determining whether a person is exempt from work requirements and provides for a partial exemption from work requirements. The new definition and partial exemption would apply under four categories of exemptions: being disabled, being a caretaker relative caring for a child, being a person whose presence in the home is required due to illness or incapacity of a household member, or being a pregnant woman. The Budget proposes to:

- Change the threshold for exemptions for work requirements from a situation that "significantly impairs the recipient's ability to be regularly employed or participate in welfare to work activities" to a situation that "prevents the recipient from being employed or participating in welfare to work activities."
- Provide a partial exemption from work requirements when there is a condition that impairs the individual's ability to be employed or to participate for the required number of hours, but does not prevent all participation. An individual in this situation will be required to participate for the number of hours s/he is able and must have "good cause" if they do not participate for those hours.

The Department of Social Services has stated that it only intends to allow for partial exemptions and does not intend to change the CalWORKs exemption standard.

**Budget Assumptions:** The Budget assumes that the proposed changes to work participation requirements will generate net savings of \$31.2 million. The Budget assumes savings in grant costs stemming from 5 percent of applicants being deterred by the new job search requirement, a higher number of families in sanctioned status (10,000 cases per month) and lower CalWORKs grants as a result of higher earnings. Grant savings resulting from the proposed changes to work participation requirements are offset by increased child care costs as 30% of parents who will now be participating are expected to use child care services.

The Budget does not assume increased demand for welfare to work services, including employment services, and does not provide increased funding for employment services or transportation. The Department of Social Services states that while the proposed reforms may increase the number of clients accessing services, there are no "new" services being offered. Demand for employment services will likely increase as a result of the proposed requirement that applicants participate in job search activities, an increase in the number of recipients who meet work requirements through community service and work experience programs, and an overall decrease in the sanctioned caseload. However, demand will likely decrease due to the projected increase in cases that meet the proposed week work requirements through employment. Additionally, the Department of Social Services states that components of the reforms will decrease administrative costs, including tracking of the 18/24 month time clock.

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**Legislative Analyst's Office Analysis and Recommendations:**

**Universal Engagement.** The budget requires all aided adults to sign a Welfare-to-Work Plan within 60 days of receipt of aid, or up to 60 days after completion of job search if job search is “initiated” within 30 days of determination of eligibility.

According to the LAO, the Governor's proposal may help increase work participation, especially among the caseload that is disengaged from the program. However, the proposal may not be the best use of limited county resources as it may result in the need for counties to reassess and modify the welfare-to-work plan using limited county resources, or lead to less desirable long-term employment outcomes. The LAO writes that the proposed requirement may hinder county efforts to use job search and other activities to complete an effective plan for some recipients and hastily completed plans could limit county ability to decide the most effective mix of up-front services and activities for a participant. *The LAO recommends that the Legislature modify the Governor's proposal to provide counties the flexibility to extend the time frame to 120 days for certain recipients to give counties the time needed to more thoroughly explore the needs of the local labor market and the barriers and abilities of the participant.*

**Job Search as a Condition of Eligibility.** The Governor proposes to require job search as a condition of eligibility. Applicants will participate in a welfare-to-work orientation, be appraised and participate in Job Club or job search prior to receiving assistance. Counties will be required to inform applicants of their rights and responsibilities, determine if applicants should be exempt from participation, and provide necessary supportive and barrier removal services.

According to the LAO, the Governor's proposal may help to increase participation, but the extent to which the Governor's proposal helps to increase work participation will largely depend on county policy design and implementation. The LAO concluded that the proposal may increase county costs particularly, for child care, transportation and administration. *The LAO recommends that the Legislature give counties the option of requiring job search while an individual's application is pending, as it would allow counties to assess what would work best in their communities.*

**Staff comment:** Adoption of the LAO recommendation would give counties flexibility in determining program eligibility criteria, contrary to the current program design, which establishes uniform eligibility criteria at the state level.

**Work Activity Reforms.** The Governor proposes to narrow the list of activities that count towards the first 20 weekly hours of required participation.

According to the LAO, the Governor's proposal limits the counties' available options to help participants move from welfare to work. In addition, the proposed requirement is more restrictive than Congressional welfare reauthorization proposals. The LAO cites research done by the Manpower Demonstration Research Corporation which found that welfare programs that offered a mix of work first for some recipients, and education and training for others, were the most successful. LAO argues that the research points to the importance of allowing counties to

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maintain flexibility to decide the best course of action for recipients. The LAO also points out that, under current law, counties have a fiscal incentive to ensure that recipients are participating as they will share in federal penalties if the state fails to meet work participation rates contemplated in pending versions of TANF reauthorization. *The LAO recommends that the Legislature retain as much county flexibility as possible with respect to participation activities.*

**Subcommittee request and questions:** The Subcommittee has requested that the Administration answer the following questions:

1. Please describe the state's work participation data, the source of the data and whether it accurately captures what is happening in the program.
2. Does CalWORKs work participation data match the Department's expectations of the program given CalWORKs work first design?
3. What factors explain CalWORKs work participation data and the number of clients who appear to be out of compliance with program requirements?
4. Please describe the Governor's proposed CalWORKs work reforms.
5. How do the proposed reforms address the factors influencing the state's work participation rates?
6. How will the Governor's proposed reforms impact demand for welfare-to-work services and the adequacy of funding for CalWORKs program services?

#### **Issue J - Reduces Grants in Sanction Status by 25 percent**

**Background:** CalWORKs requires adults receiving cash assistance to participate in work activities and meet program requirements as a condition of receiving aid. Participants who fail or refuse to comply with program requirements, without good cause, are subject to a program sanction. Adults may be sanctioned for failing or refusing to comply with the following requirements: signing a welfare-to-work plan; participating in an assigned activity; providing required proof of progress in an activity; accepting or continuing employment; and continuing employment at the same level of earnings. Prior to sanctioning a client, counties must determine that the client is not complying with program requirements; attempt to contact the client by mail and by phone to inform the client that s/he may be sanctioned; and provide the client an opportunity to comply with program requirements.

CalWORKs sanctions reduce the sanctioned families' grant by the non-compliant adult's portion of the grant. In the first instance of noncompliance without good cause, the sanction remains in effect until the person performs the required activity or an appropriate activity. In the second instance, the sanction remains in effect for three months or until the person performs the required activity or an appropriate activity, whichever is longer. In the third instance of noncompliance, the sanction remains in effect for six months or until the person achieves compliance, whichever is longer. Currently, 18 percent of adults on CalWORKs are in sanction status.

**Governor's Budget:** The Governor proposes a 25 percent reduction of the grant received by families with an adult who is not complying with CalWORKs requirements after one month of non-compliance. The proposal results in net costs of \$26.9 million due to increased child care.

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Currently, adults on CalWORKs who do not comply with certain program requirements are sanctioned, and sanctioned families' grants are reduced by the non-compliant adult's portion of the grant. The Governor would further reduce (by 25 percent) the grants for those families that remain in sanction status for two months or longer.

Under the proposal, the maximum monthly grant for a family of three that remains in sanction status for two months or longer will be reduced by \$163 to \$405. The proposed grant reduction will not be offset by an increase in food stamps benefits since federal rules do not allow such increases when public assistance benefits are reduced due to a sanction.

The Budget assumes that proposed sanction policy changes will impact the behavior of both working and non-working households and will decrease the number of sanctioned cases. The Budget assumes that the more stringent sanction policy will lead 45 percent of non-working cases in sanctioned status to "cure" their sanction. It assumes that the changes in sanction policy will have a stronger impact on non-working cases as these families rely more heavily on their CalWORKs grants than cases with earned income. The Budget does not assume that changes to the CalWORKs sanction policy will impact requests for exemptions or fair hearings.

**Legislative Analyst's Office Analysis and Comments:** According to the LAO, research is inconclusive as to how large a sanction must be in order to motivate individuals to remedy a sanction. Currently a family's grant is reduced by about \$146 when the adult is removed from the case. However, only 45 percent of sanctioned cases "cure". The LAO writes that given inconclusive research, it is difficult to predict how many adults will be motivated to avoid or cure their sanction with an additional grant reduction. The LAO states that the administration provides no basis for its estimate that 34 percent of the cases subject to sanction will cure their sanction status as a result of the proposed policy change. The LAO comments that although it is likely that an additional grant reduction will result in some sanctioned adults complying with program requirements, research is inconclusive as to the magnitude of such a work incentive. The LAO recommends that the Legislature weigh the benefits of higher participation against any potential negative impact of a grant reduction on children.

**Subcommittee request and questions:** The Subcommittee has requested that the Department of Social Services answer the following questions:

1. Briefly describe the proposed changes to the CalWORKs sanction policy.
  2. How will the proposed changes to the sanction policy impact participant behavior and compliance with program requirements?
  3. What data, research or analysis informs the impact of the proposed changes on compliance with program requirements assumed in the Governor's Budget?
  4. How will the loss of income resulting from the Governor's proposal impact children living in families with a non-compliant adult?
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### **Issue K - Child Care Reforms**

**The Governor's proposed child care reforms have been included in the agenda for informational purposes only as they would affect families on CalWORKs and a portion of estimated program savings is built into the CalWORKs budget.**

**Background:** State law requires that adequate child care must be available to CalWORKs recipients to meet their welfare-to-work requirements. If child care is not available, the recipient does not have to participate in CalWORKs activities for the required number of hours. CalWORKs child care is delivered in three stages:

- ***Stage 1.*** Stage 1 is administered by county welfare departments and begins when a participant enters the CalWORKs program. In this stage, county welfare departments refer families to resource and referral agencies to assist them with finding child care providers. The welfare departments pay providers directly for child care services.
- ***Stage 2.*** County welfare departments transfer families to Stage 2 when the county determines that participants' situations become "stable." The definition of stable varies by county and ranges from the point when the recipient has a welfare-to-work plan or employment to the point when the recipient is off aid. The State Department of Education administers stage 2 through a voucher-based program. Participants can stay in Stage 2 while they are on aid and for two years after the family stops receiving a grant.
- ***Stage 3.*** CalWORKs recipients who reach the end of their two-year time limit are eligible for Stage 3 child care. Recipients timing out of Stage 2 are eligible for Stage 3 if they have been unable to find other subsidized child care. Assuming funding is available, former recipients may receive Stage 3 child care as long as their income remains below 75 percent of the state median income (SMI) level and their children are below age 13.

As discussed in the Legislative Analyst's Office Analysis, as part of the 2003-04 budget package, the Legislature approved a number of child care reforms that affected both CalWORKs and non-CalWORKs child care. The changes to eligibility and provider reimbursement rates include:

- ***Elimination of Child Care Eligibility for 13-Year Olds.***
  - ***Elimination of Child Care Eligibility for "Grandfathered" Families.*** Grandfathered families included families with incomes between 75 percent and 100 percent of the state median income (SMI) that were receiving subsidized care in 1997, and would have otherwise become ineligible for care as a result of legislation that reduce child care eligibility to 75 percent of SMI.
  - ***Changes in Regional Market Rates.*** The state reimburses Alternative Payment Programs child care providers based on the regional market rate (RMR), a survey of what child care providers charge in each region. The Legislature lowered the maximum reimbursement rate from the 93<sup>rd</sup> percentile to the 85<sup>th</sup> percentile of the RMR. Under the new policy, the state will fully reimburse 85 percent of providers, and will not fully reimburse the 15 percent of providers with the highest costs.
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**Governor's Budget:** The Governor's Budget proposes a number of reforms to the CalWORKs and non-CalWORKs subsidized child care systems including changes in program eligibility, family fees, and provider reimbursement. The proposals will generate \$33.4 million in Stage 1 child care savings. These savings are built in to the Governor's Budget.

	<b>Current law</b>	<b>Governor's Budget</b>
<b>Age Eligibility</b>	Children up to age 13 are eligible for both CalWORKs and non-CalWORKs child care.	Eliminate eligibility for 11 and 12 year olds if after-school programs are available. Grants these children priority for placement in after school programs. <i>(\$75.5 million savings; 18,000 children lose eligibility and move to after-school programs.)</i>
<b>Stage 3 Child Care</b>	Former CalWORKs participants are eligible for Stage 3 as long as they meet income and age eligibility.	Limit Stage 3 child care to one year (in addition to two years in Stage 2). Families currently in Stage 3 would receive one additional year. <i>(No impact in the budget year.)</i>
<b>Reimbursement Rates</b>	Providers are reimbursed at up to 85 <sup>th</sup> percentile of the RMR.	Creates a six-level reimbursement rate structure that reimburses providers between 40 <sup>th</sup> and 85 <sup>th</sup> percentile of the RMR, depending on licensure, training, and whether they serve private pay clients. <i>(\$57.7 million savings; 95,592 children impacted.)</i>

\*Source Legislative Analyst's Office.

The Governor's Budget would permit a CalWORKs family to seek general child care and sign up on the general child care waiting list as soon as they have earnings. This change would facilitate the integration of CalWORKs families into the general child care system.

Lastly, the Governor proposes legislation to enhance the ability of counties and Alternative Payment Providers to collect overpayments made for child care services. It allows Alternative Payment Providers (AP) to collect overpayments from child care providers and families, changes the definition of a "clear-contract" for APs to reference eligibility, reimbursements, family fees, and overpayments and allows overpayments to be recouped through a reduction in the grant level or the child care subsidy. Counties would keep 12.5 percent of all overpayments collected.

**Legislative Analyst's Office Analysis and Recommendations:**

**Age Eligibility.** The administration proposes to eliminate subsidized child care for 11 and 12 year olds, except when after-school programs are not available to serve these children. Under the proposal, 11- and 12- year olds would be given priority in after-school programs.

The LAO writes in their analysis: "Although we believe that the proposal is reasonable given the state's fiscal constraints, our analysis indicates that the administration has significantly overestimated savings resulting from this proposal. In addition, the proposal lacks key details regarding the definition of available as it applies to after-school programs, as well as important implementation details." For example, the administration's policy is unclear as to whether the definition of available would require that after-school programs be available to CalWORKs participants on nights and weekends. As 70 percent of working CalWORKs adults are employed in industries that often require nontraditional work hours and after-school programs typically operate for a limited time period and not on the weekends or the summer, limiting child care for 11 and 12 year olds to these programs may not be viable.

**Stage 3 Eligibility Limits.** The budget proposes to limit Stage 3 CalWORKs child care to one year once a family has left cash aid and to allow CalWORKs families to sign up for a slot in the non-CalWORKs child care system as soon as they begin to earn income. Families currently in Stage 3 child care would have one more year of eligibility.

The LAO writes in their analysis: "Given limited child care resources, we believe the proposal is reasonable because it addresses the differential treatment of working poor families and families previously in CalWORKs. However, limiting eligibility for Stage 3 child care creates a transition problem for families currently in Stages 2 or 3 of the CalWORKs child care system." The LAO provides the following two options to address the potential transition problem for families in Stages 2 or 3: (1) allow families in Stages 2 and 3 to remain eligible or (2) allow families in Stages 2 and 3 to remain eligible for up to three years. These options would smooth the transition to regular subsidized child care for CalWORKs families, but would lower out-year savings, compared to the Governor's budget.

**Reimbursement Rate Reform.** The Governor's Budget would create a six-level reimbursement rate structure that reimburses providers between the 40<sup>th</sup> and 85<sup>th</sup> percentile of the RMR, depending on licensure, training, and whether they serve private pay clients.

The LAO writes in their analysis that the policy of tying reimbursement rates to the level of training, education, and other factors has merit. However, the LAO withholds recommendation on the administration's proposal to create a tiered child care provider reimbursement structure given uncertainties regarding important definitional, implementation, and administrative details.

Constituency groups have raised numerous implementation issues in relation to these proposals including the fact that the accreditation process is very involved and that accreditation entities have limited capacity to license new providers.

**Subcommittee request and questions:** The Subcommittee has requested that the Administration briefly describe the proposed reforms, their impact on families receiving CalWORKs and the estimated level of Stage 1 child care savings assumed in the CalWORKs budget.

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## **II. Food Stamps Program**

**Background:** The Food Stamps program provides food assistance at no cost to eligible low-income families and individuals. The program is overseen by the Department of Social Services and is administered by the counties. The Food Stamps program will serve an estimated 1.8 million persons, approximately 57,500 more than last year. The projected caseload growth stems from an increase in the number of families not receiving cash assistance who participate in the food stamps program and full implementation of the restoration of federal food stamp benefits to immigrants who had lost these benefits as a result of the welfare reform law.

The U.S. Department of Agriculture funds the benefit value of food stamps. The federal government also funds 50 percent of the program's administrative costs. The remaining 50 percent is split between the state and counties at a ratio of 70 percent to 30 percent respectively.

**Governor's Budget:** The budget provides \$727.3 million (\$272.4 million General Fund) to fund Food Stamps administration costs in the budget year. The budget assumes that the program will provide about \$2 billion in food coupons to 1.8 million low-income Californians in 2004-05.

### **Issue A- Elimination of Transitional Food Stamps Benefits**

**Background:** The federal government recently granted states an opportunity to provide five months of federally funded transitional food stamp benefits for people leaving cash assistance to help families make a successful transition from welfare to work. The Budget Act of 2003 provided funding to implement this federal option in California. Under current law, California was to begin to provide transitional food stamp benefits to families leaving CalWORKs in January of 2004. Counties have begun to implement the program across the state.

**Governor's Budget:** The Governor proposes to eliminate transitional food stamps benefits for General Fund savings of \$1.1 million in the current year and \$3.1 million in the budget year.

Elimination of the transitional food stamps program will result in a \$165.5 million loss in federal food stamps benefits for 66,000 low-income California households. According to a recent U.S. Department of Agriculture study, for every dollar of federal food stamps, \$1.84 in local economic activity is generated. Therefore, elimination of the transitional food stamps benefits will result in a \$305 million loss in local economic activity in California.

### **Legislative Analyst's Office Analysis and Recommendation.**

According to the LAO, the proposed elimination of transitional benefits would result in a \$3.7 million General Fund revenue loss for California. The LAO cites research that indicates that individuals with income low enough to be eligible for food stamps on average, spend about 45 percent of their income on goods subject to the sales tax. Because additional food coupons result in low-income families spending more of their other resources on taxable goods, the receipt of federal food coupons helps to generate revenue for the state and for local governments. The Analyst recommends that the Legislature reject the Governor's proposal, restore program funding, and recognize \$3.7 million in General Fund revenues.

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**Subcommittee request and questions:** The Subcommittee has requested that the Department of Social Services describe the budget proposal, the resulting loss of federal food stamps benefits and its impact on low-income families. The Subcommittee has also requested that the Legislative Analyst's Office discuss their analysis of the budget proposal and their recommendation.

### **Issue B - Repeal of Recent Food Stamps Program Reforms**

**Background:** According to the US Department of Agriculture, only half of all eligible Californians access food stamps benefits. Working families, who comprise 71 percent of eligible households, are especially unlikely to participate in the program. Assembly Bill 231 (Chapter 743, Statutes of 2003), seeks to increase participation in the food stamps program among eligible families by simplifying the application process and modifying program eligibility criteria. Specifically, AB 231, establishes criteria for county exemptions from required face-to-face interviews and provides that car ownership and value shall not affect food stamps eligibility. The new law is expected to increase participation in the Food Stamps program by 15,000 households. Counties have begun to implement the eligibility reforms across the state.

**Governor's Budget:** The Governor proposes to repeal legislation, which sought to increase participation in the food stamps program to realize General Fund savings of \$186,000 in the current year and \$444,000 in the budget year.

Repeal of recent food stamps program reforms will result in a \$37 million loss in federal food stamps benefits for 15,000 low-income California households. The Governor's proposal will result in a \$68 million loss in local economic activity in California.

**Legislative Analyst's Office Analysis and Recommendation.** The LAO concluded in their analysis that the proposed repeal of recent food stamps reforms would result in a \$835,000 General Fund revenue loss due to foregone sales tax revenues. The Analyst recommends that the Legislature reject the Governor's proposal, restore Food Stamps and CFAP funding, and recognize \$835,000 in General Fund revenues.

**Subcommittee request and questions:** The Subcommittee has requested that the Department of Social Services describe the budget proposal, the resulting loss of federal food stamps benefits and its impact on low-income families. The Subcommittee has also requested that the Legislative Analyst's Office discuss their analysis of the budget proposal and their recommendation.

### **III. Immigrant Programs**

**Background:** California funds and operates various human services programs that provide safety net services to legal immigrants who are aged, blind or disabled and to legal immigrant families. Program services include food assistance, cash assistance and welfare-to-work services for eligible individuals and families. The programs include the Cash Assistance Program for Immigrants, CalWORKs for legal immigrants and the California Food Assistance program.

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The Cash Assistance Program for Immigrants (CAPI) was established in 1997 to provide cash benefits to aged, blind and disabled legal immigrants who became ineligible for SSI as a result of welfare reform. This state-funded program is overseen by the Department of Social Services and administered locally by counties. CAPI serves approximately 11,000 individuals each year. Enrollment is relatively stable at this time. However, enrollment may increase beginning in September 2006 as immigrants reach the end of a ten year deeming period that makes many individuals ineligible for assistance due to a presumption that they are supported by a sponsor.

The CalWORKs for legal immigrants program provides cash assistance and welfare-to-work services to otherwise CalWORKs eligible parents or caretaker relatives who are legal immigrants that have been in the United States for five years or less. The program currently serves 5,200 families and enrollment is relatively stable.

The California Food Assistance Program (CFAP) is a state-only food stamp program for legal non-citizens. Full implementation of the restoration of federal food stamps benefits to legal immigrants has dramatically reduced CFAP beneficiaries. The estimated caseload at the end of the budget year is approximately 10,200 individuals.

### **Issue A - Enrollment Caps**

**Background:** The Governor proposed legislation to cap enrollment for various human services programs, effective April 1, 2004, as part of his proposed Mid-Year reductions. The Governor's Budget assumes implementation of the proposed enrollment caps.

The Governor's proposed enrollment cap would limit enrollment in the CAPI, CalWORKs for legal immigrants and CFAP programs. Under the proposal, counties will be required to screen for eligibility and maintain a waiting list. Beneficiaries will become eligible for services on a first-come, first-served basis. Counties would not consider the relative need of an applicant family or the risk of delaying services when awarding benefits to persons on the waiting list.

The proposed enrollment caps would require counties to establish new administrative procedures including a process to screen applicants and a countywide waiting list. The budget does not provide any funding for increased costs associated with administration of the proposed caps.

The Governor's proposed enrollment caps might increase demand for county funded programs including general assistance. However, the proposed implementing legislation would make applicants for the CalWORKs legal immigrants program who are on a waiting list ineligible for county general assistance programs, reducing cost shifts to counties and reducing a family's options for assistance.

**Governor's Budget:** The Governor's Budget assumes implementation of the proposed enrollment caps for total current year and budget year General Fund savings of \$4.5 million.

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The following chart illustrates the proposal, its impact on clients and resulting savings:

PROGRAM	Capped Enrollment Level	2003-04 Caseload Affected (No Services)	2003-04 General Fund Reduction	2004-05 Caseload Affected (No Services)	2004-05 General Fund Reduction
<b>CA Food Assistance Program.</b> This program provides food assistance to recent immigrants, battered immigrants and persons paroled to the US for humanitarian, health and political reasons. Persons above the cap will need to seek services from food banks or county services.	10,230 individuals	0	\$0	1,316	\$100,000
<b>Cash Assistance Program for Immigrants.</b> CAPI provides cash benefits to aged, blind and disabled legal immigrants who became ineligible for SSI as a result of federal welfare reform. Persons above the cap will need to seek assistance at the county level.	8,645 individuals	60	\$71,000	927	\$4.3 million
<b>CalWORKS for Legal Immigrants.</b> This program provides cash assistance and employment services to immigrants who have been in the US for less than 5 years.	5,200 individuals	0	\$0	0	\$0

#### **Legislative Analyst's Office Analysis and Recommendations**

The LAO notes in their analysis that the Governor's proposed enrollment caps raise equity issues as families and individuals that meet the same eligibility requirements are treated differently based on the time when they applied. The LAO also notes that enrollment caps make programs somewhat more costly and difficult to administer as it would require establishment of waiting lists and associated procedures, as well as a mechanism to deal with applicant disputes over disenrollment and re-enrollment in a program. Lastly, the LAO notes that the proposed caps may lead to false economies as applicant circumstances may worsen and become more costly due to a delay in receiving services or assistance.

The following chart, prepared by the LAO, summarizes their recommendations:

Program	Recommendation/Comments
CalWORKS for Legal Immigrants	Reject. No savings would be achieved to offset administrative costs.
California Food Assistance Program	Reject. Minor savings achieved from caseload cap probably not worth increased administrative costs and operational problems.
Cash Assistance Program for Immigrants	No recommendation. A reasonable option to consider but raises fundamental policy question about limiting services for this population. There are alternatives for containing the cost of this program.

**Staff comment:** The Governor proposes to cap enrollment for the CalWORKs legal immigrants program and the CFAP program as part of his proposals to reduce discretionary state programs that serve immigrants. Funding for the CalWORKs legal immigrants program and a portion of the CFAP program is counted towards the TANF MOE. Therefore, funding CalWORKs for legal immigrants and the MOE component of CFAP is as discretionary as funding many components of CalWORKs, including, safety net grants and substance abuse services.

**Subcommittee request and questions:** The Subcommittee has requested that the Department of Social Services describe the budget proposal, the impact of the proposal on low-income legal immigrants and the potential for cost shift to county funded human services programs resulting from the proposal. The Subcommittee has also requested that the Legislative Analyst's Office discuss their analysis of the budget proposal and recommendations.

### **Issue B - Block Grant Funding for Legal Immigrant Services.**

**Governor's Budget:** The Governor's Budget proposes to eliminate CAPI, CFAP and CalWORKs for legal immigrants and instead provide block grant funding to counties to support safety net programs for immigrants effective October 2004 for General Fund savings of \$5.9 million. Under the proposal, counties would generally have freedom to move funds among the existing programs and to restructure benefit and eligibility rules. Counties would be free to continue enrollment caps established earlier in the year, or could fund caseload increases through benefit and service reductions or the addition of their own resources. Counties would be required to spend the CalWORKs portion of the block grant and a portion of CFAP funds, in accordance with federal law so that the expenditures would count toward the TANF MOE.

The Governor's Budget proposed funding level for the block grant is based on current funding subject to a cap on new enrollees and reduced by five percent. The budget assumes that counties will be able to achieve efficiencies in delivering block grant programs to legal immigrants and reduces funding by 5 percent to reflect the impact of the anticipated efficiencies. The proposal does not indicate how counties would achieve the assumed efficiencies.

### **Legislative Analyst's Office Analysis and Recommendations**

The LAO notes in their analysis that the Governor's proposal lacks many details including how much flexibility counties will have to restructure programs and move funding among programs and the allocation of the block grant funds among counties. The budget does not specify how counties will achieve budgeted efficiencies without reducing benefits and services for immigrants. The LAO's review suggests that counties are unlikely to achieve the assumed savings administratively, and will probably need to reduce services or benefits to stay within the proposed block grant amount. Lastly, the Governor's proposal does not specify how the amount of the block grant would be adjusted in future years.

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The LAO comments that income redistribution programs, including CAPI, CalWORKs and CFAP, should be at the state level as the state has an interest in maintaining uniformity in benefit levels. Variation in benefit levels could lead to migration effects, whereby one county's reduction in benefits spurs others to reduce benefits to avoid becoming a benefit "magnet." The LAO concludes that CAPI, CFAP, and CalWORKs for immigrants are poor candidates for transfer into a block grant and should be left as state responsibilities.

LAO recommends that the Legislature reject the proposed county block grant for immigrant programs because the programs are not well-suited for local control. Counties are unlikely to achieve the administrative efficiencies assumed in the Governor's proposal. The 5 percent savings proposed to be achieved through the block grant represent a further reduction in services or benefits for low-income immigrants.

**Alternatives to the Governor's proposal:** The LAO comments that the Legislature may wish to consider alternatives to the Governor's proposals including reductions to CAPI grants and changes to the CAPI deeming rules. CAPI grant reductions would reduce program costs. They would also reduce the resources of aged, blind and disabled immigrants and make it harder for program enrollees to cover their housing, utilities and food costs. More stringent CAPI deeming rules would further restrict program eligibility.

California may wish to expand its efforts to assist immigrants in enrolling for the federal SSI program as a way of reducing CAPI costs. Most immigrants who entered the United States prior to August 1996, the majority of the CAPI caseload, should qualify for federal SSI based on revised disability standards. Since March 2002, Los Angeles County's SSI Advocacy program has succeeded in reducing the pre-1996 CAPI caseload by 55 percent by assisting immigrants in becoming enrolled in SSI, saving the state millions in grant costs. Similar efforts in other counties may generate millions in CAPI savings.

**Subcommittee request and questions:** The Subcommittee has requested that the Department of Social Services describe the budget proposal, discuss the administrative efficiencies envisioned by the administration, and discuss the impact of the proposal on low-income legal immigrants. The Subcommittee has also requested that the Legislative Analyst's Office discuss their analysis of the budget proposal and recommendations.

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